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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

Arizona Corporation Commission

DOCKETED

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IN THE MATTER OF THE APPLICATION
OF MORENCI WATER & ELECTRIC
COMPANY – ELECTRIC DIVISION – FOR
APPROVAL OF ITS 2015 AND 2016
RENEWABLE ENERGY STANDARD
TARIFF IMPLEMENTATION PLAN AND
REQUEST FOR PARTIAL WAIVER

DOCKET NO. E-01049A-14-0205

DECISION NO. 74864

ORDER

Open Meeting
December 11 & 12, 2014
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Morenci Water & Electric Company (“MWE” or “Morenci”) is certificated to provide electric service as a public service corporation in the state of Arizona.

Background

2. On June 25, 2014, Morenci Water & Electric Company filed its 2015 and 2016 Renewable Energy Standard Tariff (“REST”) Implementation Plan (“2015-2016 Plan”) in compliance with Arizona Administrative Code (“A.A.C.”) R14-2-1801 through R14-2-1816. MWE’s 2015-2016 Plan includes a Plan for Eligible Renewable Energy Resources and a Plan for Distributed Renewable Energy Resources.

3. MWE’s application includes a request for a two-year approval of the plan (2015 and 2016), with a waiver of the annual plan filing requirement for the 2015 calendar year. MWE is also requesting a two-year extension of the continued partial waiver to exclude energy sales to Freeport-

1 McMoRan Copper & Gold, Inc. ("FMI") mining operations at Morenci and Safford from the
2 calculation of both the Annual Renewable Energy Requirement under A.A.C. R14-2-1804, and the
3 Distributed Renewable Energy Requirement under A.A.C.R14-2-1805. Additionally, MWE requests a
4 two-year extension of the distributed energy requirement waiver granted in Decision No. 73632
5 (January 31, 2013).

6 4. According to MWE's REST Compliance Report for 2013, a total of 1,600,000 kWh of
7 renewable energy was procured that year. The procured renewable energy exceeded MWE's annual
8 requirement of 1,340,732 kWh for 2013. The procured renewable energy originated from renewable
9 energy credits ("RECs") purchased from Tucson Electric Power Company ("TEP"). MWE has
10 indicated that in 2015 and 2016, it will also use RECs to fulfill its total annual REST requirement.

11 5. MWE's Distributed Renewable Energy Requirement for 2013 was 402,220 kW. MWE
12 has three customer-sited distributed energy projects. All three projects were non-residential solar
13 photovoltaic ("PV") systems with a combined output of approximately 32 kW. Despite these projects,
14 MWE did not meet its 2013 REST distributed renewable energy requirement, and will likely not meet
15 its 2014, 2015 and 2016 distributed energy requirement pursuant to A.A.C. R14-2-1805.

16 **The 2015 and 2016 REST Implementation Plan**

17 Waiver to Exclude Energy Sales

18 6. MWE indicates in its 2015-2016 Plan that it currently owns no generation and
19 procures all of its energy from the wholesale market to meet load. According to MWE, it serves
20 approximately 2,678 customers (2,356 resident, 320 non-residential customers with loads below 3
21 MW, and 2 FMI mining customers). Energy sales to the two FMI mines represent approximately 98 to
22 99 percent of MWE's total kWh sales. MWE notes that this concentration of load amongst two large
23 customers is unique when compared to all other electric utilities in the state.

24 7. Decision No. 70303 (April 24, 2008) granted MWE a partial waiver that excluded
25 energy sales to the two FMI mines from the calculations of the Annual Renewable Energy
26 Requirement under A.A.C. R14-2-1804 and the annual Distributed Renewable Energy Requirement
27 under A.A.C. R14-2-1805. The Commission extended the waiver through 2009 in Decision No.
28 70952, 2010 in Decision No. 71469, 2011 in Decision No. 72230, 2012 in Decision No. 72893 and

through 2013 and 2014 in Decision No. 73632. MWE requests that the partial waiver remain in effect for 2015 and 2016.

8. Table I, below illustrates the differences in REST Rule requirements, with and without sales to the FMI mines, based on MWE's forecast of approximately 1,800,000 MWh of annual energy sales. The difference between the amounts of required renewable energy and required distributed energy with and without the FMI mine sales is several orders of magnitude.

Table I
Annual REST Rule Requirement

	2015		2016	
	ARER ¹	DE ²	ARER ¹	DE ²
REST Rule % Requirement	5%	30%	6%	30%
Requirement incl. FMI Mines	90,000 MWh	27,000 MWh	108,000 MWh	32,400 MWh
Requirement w/o FMI Mines	1,650 MWh	495 MWh	1,980 MWh	594 MWh

9. MWE calculates that it would cost \$2,835,000 to procure the 63,000 MWhs of non-distributed renewable energy to meet its 2015 requirement, if the sales to the FMI mines were included when calculating the Annual Renewable Energy Requirement and assuming a \$45/MWh premium for renewable energy. Further, MWE states that approximately \$46.5 million would be required to meet its annual Distributed Renewable Energy Requirement of 27,000 MWh through the installation of solar photovoltaic systems. MWE states that under such a scenario, it would be forced to raise the REST surcharge and monthly caps to a level that would be unsustainable for its customers.

Procurement of Eligible Renewable Resources

10. Under the 2015-2016 Plan, MWE would continue to procure Eligible Renewable Energy Resources from one or more sources. MWE states that it cannot be specific about its procurement sources because of uncertainties related to operational performance, deliverability of such resources and the need to match deliveries with dispatch schedules. Nevertheless, MWE states

¹ Annual Renewable Energy Requirement as a percentage of annual gross energy sales.

² Annual Distributed Renewable Energy Requirement as a percentage of the Annual Renewable Energy Requirement.

that it will “make best efforts” to procure the necessary amounts of Eligible Renewable Energy Resources.

11. The following Table II summarizes MWE’s renewable energy procurement plans:

Table II
Planned Renewable Energy Procurement

	2015	2016	2017	2018	2019
Prospective Procurement (MWh)	1,155	1,386	1,617	1,848	2,079
Anticipated Cost (\$)	51,975	62,370	72,765	83,160	93,555

Procurement of Distributed Renewable Energy Resources

12. MWE intends to continue offering incentives to customers that install qualified renewable energy systems, with one exception to the incentives. In order to be consistent with the incentives offered by Ajo Improvement Company, a sister company, MWE proposes to reduce the incentive for solar residential facilities (essentially photovoltaic systems) from \$4.00 per Watt DC to \$3.50 per Watt DC. All other incentives would remain the same. MWE’s proposed incentives for distributed renewable energy resources are presented in the following Table III:

Table III
Incentives for Distributed Renewable Energy Resources

System Type	2015-2016 Incentives
Biomass/Biogas (electric, thermal, cooling)	TBD
Biomass/Biogas CHP (electric & thermal)	TBD
Daylighting	\$0.20/kWh of first year energy savings only.
Geothermal (electric)	\$0.50/Watt
Geothermal (thermal)	\$1.00/Watt
Hydroelectric	TBD
Small Wind Generators	\$2.50/Watt AC
Solar Electric (PV) – Residential	\$3.50/Watt DC
Solar Electric (PV) – Non-Residential	\$3.50/Watt DC
Solar Space Cooling	TBD
Non-Residential Solar Water Heating/ Space Heating	TBD
Residential Solar Water Heating/ Space Heating	\$0.75/kWh for the first year of service only.
Non-Residential Pool Heating	TBD

13. Incentives for any one project would not exceed 60 percent of the total project cost (including financing) with a maximum incentive not to exceed \$75,000. Amounts noted as “TBD” are for technologies that require the applicant to submit an engineering report from a licensed,

professional engineer that includes anticipated energy savings and the designed output for the system. MWE would then review the submission to validate energy savings and set a project-specific incentive based on the anticipated energy savings.

14. Staff notes that MWE has only incented the installation of distributed renewable energy systems at three locations in its service territory since the REST Rules were adopted. Staff recommends continuation of MWE's incentive structure with the inclusion of Morenci's proposed decrease of Residential Solar Electric to \$3.50 / Watt DC.

15. As required by R14-2-1809, MWE has prepared a Customer Self-Directed Renewable Energy Option ("Self-Directed Option") tariff by which an eligible customer may apply to MWE to receive funds to install distributed renewable energy resources. Per the REST Rules, the amount of funds available may not exceed the amount annually paid into the REST fund by the eligible customer. MWE proposes to maintain its current Self-Directed Option tariff.

Budget

16. When preparing its budget for the 2015 – 2016 Plan, MWE has assumed that the Commission will extend its waiver to exclude energy sales to the FMI mines. Based on this assumption, MWE has submitted the following REST Implementation Plan Budget.

Table IV
MWE Proposed Budget

	2015	2016	2017	2018	2019
Renewable Energy Resources					
Total Energy – Prospective Procurement (Eligible Renewable Resources)	\$51,975	\$62,370	\$72,765	\$83,160	\$93,555
Administration, Implementation, Commercialization & Integration	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Renewable Energy - Subtotal	\$52,975	\$63,370	\$73,765	\$84,160	\$94,555
Distributed Renewable Energy Resources					
Incentives	\$757,834	\$928,961	\$1,100,088	\$1,271,215	\$1,442,343
Administration, Implementation, Marketing & Outreach, Commercialization & Integration	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000
Distributed Energy – Subtotal*	\$762,834	\$933,961	\$1,105,088	\$1,276,215	\$1,447,343
Total	\$815,809	\$997,331	\$1,178,853	\$1,360,375	\$1,541,898

* Assumes that no Distributed Energy is installed in prior years

1 17. MWE states that this budget has not been used to calculate the Renewable Energy
2 Standard Surcharge ("RESS"). Rather, the budget is submitted to demonstrate the level of funding
3 required to meet the Distributed Renewable Energy Requirement.

4 18. MWE currently collects a RESS of \$0.004988 per kWh. MWE proposes to leave the
5 RESS unchanged in its 2015-2016 Plan. RESS collections are capped as follows, with no change
6 proposed for the 2015-2016 Plan:

- 7 • \$1.05 per month for each residential customer;
- 8 • \$39.00 per month for each non-residential customer;
- 9 • \$500.00 per month for each non-residential customer with demand over 3 MW per
10 month for three consecutive months.

11 19. Based on its current customer count, the maximum amount MWE could collect
12 through the RESS equals approximately:

- 13 • \$29,685 per year from residential customers;
- 14 • \$149,760 per year from non-residential customers;
- 15 • \$12,000 per year from non-residential customers >3 MW.

16 20. However, MWE states that it is unlikely it will collect the maximum amount. MWE
17 estimates that it will collect approximately \$67,404 from customers through the RESS in 2015. With
18 the partial waiver of the FMI mines' load, the RESS may provide sufficient funding for MWE to meet
19 its total REST Rule requirement through the purchase of grid-tied Eligible Renewable Energy
20 Resources in 2015 and 2016. This level of funding will not be sufficient to meet the annual Distributed
21 Renewable Energy Requirement.

22 21. MWE states that it does not believe that raising the RESS rates or monthly caps is
23 necessary or appropriate at this time as there has been no further interest from customers to install
24 distributed renewable generation. MWE states that it would file to amend the RESS if and when
25 customer interest is at a level warranting a higher collection.

26 22. As of June 2012, MWE had approximately \$90,000 in funds available for renewable
27 energy procurement and distributed energy incentives. Of that amount, \$50,000 went toward acquiring
28 its non-distributed requirements in late 2012 and late 2013, to procure its requirement through 2013.

1 MWE also collected approximately \$100,000 from July 2012 through June 2014. This leaves
2 approximately \$140,000 remaining to procure its requirement starting in 2015.

3 **Tariffs and Plan Schedule**

4 23. MWE has stated that because there have been few applications submitted for
5 incentives for eligible distributed renewable energy resources, increasing the RESS and monthly caps is
6 not justified at this time. In addition, MWE states that any unused funds collected would continue to
7 be rolled over to help fund future years' REST requirements. Therefore, MWE proposes that its
8 Distributed Renewable Energy Resources Schedule tariff, Customer Self-Directed Renewable Energy
9 Option tariff and Renewable Energy Standard Surcharge Schedule tariff currently on file would
10 remain in effect through 2016, with MWE filing its next REST Plan for approval on July 1, 2016.

11 **Staff Analysis**

12 24. Staff's analysis of MWE's 2015-2016 Plan confirms that the customer load profile of
13 MWE presents a difficult challenge in complying with the REST rules. Staff believes that there are
14 limited opportunities for the implementation of distributed generation, due to the terrain and
15 demographics of the mining community.

16 25. Staff also believes that for Morenci to meet its Distributed Energy Requirement, the
17 RESS would have to be raised to unsustainable levels. Further, Staff believes there is limited demand
18 for Solar PV in Morenci, as incentives have been above the State average and only three systems have
19 been installed. Staff believes a waiver for Morenci's 2015-2016 Distributed Energy requirement is
20 appropriate. However, Staff also believes that Morenci should continue its Distributed Energy
21 incentives as described in its 2015-2016 plan.

22 26. Given that Morenci is currently carrying a \$140,000 REST surplus and has been unable
23 to attract interest in Distributed Renewable Energy, Staff believes the RESS should be reduced to
24 \$0.004 per kWh. Additionally, Staff believes Morenci should operate under Staff's proposed budget in
25 Table V.

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Table V
Staff Proposed Budget

	2015	2016	2017	2018	2019
Renewable Energy Resources					
Total Energy – Prospective Procurement (Eligible Renewable Resources)	\$51,975	\$62,370	\$72,765	\$83,160	\$93,555
Administration, Implementation, Commercialization & Integration	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Renewable Energy – Subtotal	\$52,975	\$63,370	\$73,765	\$84,160	\$94,555
Distributed Renewable Energy Resources					
Incentives	\$0	\$0	\$0	\$0	\$0
Administration, Implementation, Marketing & Outreach, Commercialization & Integration	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Distributed Energy – Subtotal*	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Total	\$53,975	\$64,370	\$74,765	\$85,160	\$95,555

27. Under Staff's proposed 2015-2016 budget, all carryover funds remaining after Morenci's purchase of RECs would be available for award as incentives, should customer demand for these incentives materialize. Staff recommends reducing Morenci's incentive budgets for 2015 and 2016 from \$757,834/\$928,961 to \$0. However, if monies collected through the RESS end up being higher than anticipated, these monies would also be available for award as incentives. If no customer demand for incentives materializes, Morenci can apply carryover funds towards future years' Renewable Energy Requirements.

Staff Recommendations

28. Staff has recommended approval of the 2015-2016 REST Implementation Plan as modified and discussed herein.

29. Staff has further recommended that Morenci adjust its RESS for 2015-2016 to a lower rate of \$0.004 per kWh, beginning January 1, 2015.

30. Staff has further recommended that Morenci be ordered to adopt Staff's proposed 2015-2016 REST Plan Budget.

31. Staff has further recommended that MWE's request to exclude energy sales to the FMI mines from the calculation of both the Annual Renewable Energy Requirement under A.A.C. R14-2-1804 and the annual Distributed Renewable Energy Requirement under A.A.C. R14-2-1805 be granted for 2015-2016.

32. Staff has further recommended Morenci receive a two-year waiver for its Distributed Energy Requirement for 2015-2016, while continuing its incentive structure as discussed herein.

33. Staff has further recommended that MWE file its RESS tariff in compliance with the Decision in this case within 15 days of the effective date of the Decision.

34. Staff has further recommended that Morenci, in its REST Compliance Report, include a running total of carryover REC's and indicate when these carryover RECs are used to fulfill its yearly requirement.

35. Staff has further recommended that Morenci file its next REST Implementation Plan on or before July 1, 2016, as dictated by A.A.C. R14-2-1813.

CONCLUSIONS OF LAW

1. Morenci Water & Electric Company is an Arizona public service corporation within the meaning of article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over Morenci Water & Electric Company and over the subject matter of the application.

3. The Commission, having reviewed the application and Staff's memorandum dated November 26, 2014, concludes that it is in the public interest to approve the 2015-2016 REST Implementation Plan as modified and discussed herein.

ORDER

IT IS THEREFORE ORDERED that Morenci Water & Electric Company's proposed 2015-2016 REST Implementation Plan is approved as modified and discussed herein.

IT IS FURTHER ORDERED that Morenci Water & Electric Company adjust its RESS for 2015-2016 to a lower rate of \$0.004 per kWh, beginning January 1, 2015.

IT IS FURTHER ORDERED that Morenci Water & Electric Company adopt Staff's proposed 2015-2016 REST Plan Budget.

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1 IT IS FURTHER ORDERED that Morenci Water & Electric Company's request to exclude
2 energy sales to the Freeport McMoRan Copper & Gold, Inc. mines from the calculation of both the
3 Annual Renewable Energy Requirement under A.A.C. R14-2-1804 and the annual Distributed
4 Renewable Energy Requirement under A.A.C. R14-2-1805 is granted until further order of the
5 Arizona Corporation Commission.

6 IT IS FURTHER ORDERED that Morenci Water & Electric Company receive a two-year
7 waiver for its Distributed Energy Requirement for 2015-2016, while continuing its incentive structure
8 as discussed herein.

9 IT IS FURTHER ORDERED that Morenci Water & Electric Company file its RESS tariff in
10 compliance with the Decision in this case within 15 days of the effective date of this Decision.

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IT IS FURTHER ORDERED that Morenci Water & Electric Company, in its REST Compliance Report, include a running total of carryover RECs and indicate when these carryover RECs are used to fulfill its yearly requirement.

IT IS FURTHER ORDERED that Morenci Water & Electric Company file its next REST Implementation Plan on or before July 1, 2016.

IT IS FURTHER ORDERED that this decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

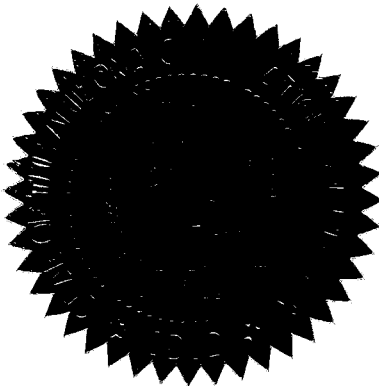
CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER



IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 18th day of December, 2014.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:EMV:sms\CHH

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